

January 12, 2007 In favor of SB 150

St. Peter's Hospital, Helena, Montana is a strong supporter of the endowment tax credit and believes it has been one of the most cost effective pieces of tax legislation in Montana's recent history. We believe it should be renewed again. We understand the rationale and support the change to prohibit gifts for bricks and mortar, capital projects that are structured to qualify for the credit.

We are opposed to, and believe to be bad legislation, having this prohibition take effect on passage, in the middle of the tax year. .

Bad Public Policy

Absent egregious adverse impact requiring immediate remedy, which is not the case here, **changing tax credit or tax deduction rules in the middle of the tax year is bad policy.** Individuals and businesses make financial plans and financial commitments based on these rules. They depend on a degree of consistency, at least within a given year, in order to carry out their plans.

No Data To Support

The Department of Revenue is concerned that this "unintended use" of the tax credit may exceed the fiscal note on the cost of the credit to the state. There is no data that support this concern. **Charities across the state have been structuring gifts from donors for at least the past four years to qualify for the credit and support bricks and mortar projects. The fiscal note has not been exceeded in the past with this use.**

If, and it's a big if, an increased use of the credit for a large number of bricks and mortar gifts *should* cause the fiscal note to be exceeded in the final year of current legislation (which would require this specific use far in excess of anything we have seen in the prior four years) the remedy is already in place with the expiration December 31, 2007 of current legislation.

Harm To Montanans

If passed as currently drafted, this change in the middle of a tax year will cause damage. Montana's colleges and universities, community hospitals, treatment centers and other non-profit providers are struggling to fund critical infrastructure needs as our state grows and ages. The government can't do it all. Private philanthropy is helping us to build this needed infrastructure.

I am aware of a number of donors who made significant, multi-year pledges, based on the existing tax rules. If these rules are changed in the middle of the tax year, there are donors who will experience adverse consequences, be unable to fulfill their commitments and important projects that will fall short of promised funding.

**Testifying: Mike Munck, Executive Vice President, St. Peter's Hospital Foundation
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Increase in Taxable Income from Planned Gifts

Most "planned gifts" result in an increase in the donor's taxable income. This increased income yields increased income tax revenue as a direct result of these gifts. It also frees up significantly more consumer income in Montana's economy.

The following are all gifts that qualified for the tax credit in one year for St. Peter's Hospital, Helena, MT

Gift	Prior Income	Income from Gift	Life of Gift*	Increased Income Tax @ 10% for Life of Gift	MT TaxCredit
\$25,000 stock in trust	1.5% = \$375	8% = \$2,000	16 years	\$200 - \$37.5 X 16 = \$2,600	\$5,000
\$405,000 stock in trust	2% = \$8,100	7.5% = \$30,375	19 years	\$3,037 - \$810 X 19 = \$42,313	\$10,000
\$500,000 stock in trust	2% = \$10,000	7.5% = \$37,500	19 years	\$3,750 - \$1,000 X 19 = \$52,250	0
\$25,000 stock in annuity	3% = \$750	7.6% = \$1,900	14 years	\$130 - \$75 X 14 = \$770	\$5,000
\$100,000 stock in annuity	2% = \$2,000	12% = \$12,000	6 years	\$800 - \$200 X 6 = \$3,600	\$10,000
\$200,000 stock & bonds in annuity	6% = \$12,000	12% = \$24,000	6 years	\$1,600 - \$1,200 X 6 = \$2,400	0
\$10,000 stock in annuity	1% = \$100	8.6% = \$860	12 years	\$60 - \$10 X 12 = \$600	\$2,500

Total Gifts: \$1.265 million Total prior annual income: \$33,325 Total current annual income as gifts: \$108,635

Total increase projected in Montana income tax revenue due to gifts over projected life of gifts: \$104,533 (\$73,173 at 7%)

Total Montana Income Tax Credits paid: \$32,500

NOTE: All gift annuity income is figured at 66% taxable for income tax purposes, as a portion of gift annuity income is tax exempt.

*** I.R.S. tables actuarial projection based on donor's age at time of gift.**